FitchRatings

La Banque Postale S.A.

Update

Banks
Universal Commercial Banks
France

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1+
Derivative Counterparty Rating	A+(dcr)
Viability Rating	a
Government Support Rating	a-

Sovereign Risk (France)	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA

Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

CNP Assurances SA (March 2024)
Global Economic Outlook (March 2024)
What Investors Want to Know: Rating Approach for CNP, LBP and La Poste (December 2023)
Fitch Affirms La Banque Postale at 'A'; Outlook Stable (December 2023)
French Bank Net Interest Margins to Rebound in 2024 (November 2023)

Analysts

Rafael Quina, CFA
+33 1 44 29 91 81
rafael.quina@fitchratings.com

Charlotte Pernel
+33 1 44 29 91 23
charlotte.pernel@fitchratings.com

Key Rating Drivers

Business Profile, Capital Drive Ratings: La Banque Postale S.A.'s (LBP) ratings primarily reflect its insurance-heavy business mix, as fully owned CNP Assurances SA (CNP) represents around 60% of its assets and drives earnings. The group's capitalisation also drives the ratings and is commensurate with risks, although capital is not fully fungible between LBP and CNP. The ratings also consider a market-risk-sensitive risk profile, sound asset quality and a very strong funding and liquidity that benefits from a very stable retail deposit base.

Public-Sector-Owned Bancassurer: The full consolidation of CNP in 2020 transformed LBP into a fully-fledged bancassurance group where CNP is the main performance driver. LBP has a significant franchise in French retail banking, where it has strong deposit market shares in stable, albeit expensive, Livret A savings. CNP has strong to leading market positions in life and creditor insurance in France. CNP offers strong potential to increase client equipment rates with insurance products in France and has well-performing operations in Brazil and Italy.

Market Sensitive Risk Profile: Credit underwriting standards in the banking business are low-risk. However, LBP's risk profile also considers slightly weaker risk controls than at large French peers and higher vulnerability to interest rate and market shocks due to the group's structure and lower diversification. The risk profile also captures CNP's interest and investment risk, which is high relative to European peers but in line with French bancassurers. LBP's progress in improving its risk governance and control framework benefits our assessment.

Sound Asset Quality: LBP's impaired loans ratio is sound and remains the lowest among large French banks, despite a material increase since end-2021, mainly caused by two large corporate exposures that also affected other French banks. We forecast the ratio will continue to increase towards 2.5% by end-2025, which would still be better than the average. The deterioration will mainly result from the most vulnerable corporates and unsecured consumer credit to fragile households, while LBP's large home loans portfolio will not markedly weaken.

CNP Drives Adequate Profitability: The implementation of IFRS17 and CNP's strong performance greatly improved LBP's operating profit/risk-weighted assets (RWAs) to 2.2% in 2023. This outweighed material revenue decline in French retail banking, as liabilities repriced faster than assets. LBP's operating profit/RWAs should remain above 2% in 2024–2025, driven by organic growth in insurance, improved cost control and a gradual recovery in French retail.

We expect LBP's profitability to become structurally more volatile because of increased accounting volatility under IFRS17, although CNP is rolling out hedges and adapting its asset allocation. This higher earnings volatility will also be mitigated by increased capital stability.

Danish Compromise Drives Capital: LBP's regulatory capital ratios are strong and greatly benefit from the favourable treatment of insurance under the Danish Compromise. This overstates loss-absorbing capital available to LBP's creditors. We therefore negatively adjust our assessment of capitalisation because CNP's capital is not fully fungible with LBP's, despite CNP's dividend record. LBP's common equity Tier 1 (CET1) ratio recovered materially in 2023, due to IFRS17. Solid internal capital generation should support a CET1 ratio of around 18%.

Very Stable Funding and Liquidity: Our assessment of LBP's funding and liquidity incorporates the bank's substantial excess liquidity. LBP also has one of the lowest loans/deposits ratios among rated large western European banks. It has low reliance on wholesale funding, driven by its very stable and granular retail-deposit base with a very high share of insured deposits.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The Outlook on LBP's Long-Term IDR is Stable, meaning the rating is unlikely to change in the short term. However, the most likely trigger for a downgrade would be a drop in the group's CET1 ratio to durably below 14% or evidence of material obstacles to capital fungibility within the group, such as regulatory measures preventing regular dividends being routinely upstreamed to LBP. Fitch could also downgrade LBP's ratings if the group's operating profit sustainably declines to below 2% of RWAs and if LBP's impaired loans ratio durably increases to above 3%.

LBP's ratings are also sensitive to severe market shocks if Fitch expects these to result in a durable and significant impact on the group's capitalisation or earnings. We could also downgrade LBP if operating losses in the retail banking operation widen to the extent it would meaningfully impact the group's overall earnings or capital trajectory.

A downgrade of CNP's Insurer Financial Strength Rating to 'A' would likely put pressure on LBP's ratings, due to the size of the insurance activities in its business mix and their key contribution to the group's profitability and internal capital generation.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of LBP's ratings is unlikely in the short term. In the longer term, positive rating action would be contingent on further evidence of improved capital fungibility between CNP and LBP, as well as greater business diversification with a stronger franchise in some key areas – provided this expansion is consistent with LBP's conservative risk appetite.

To be rating positive, this expansion would have to result in structurally improved earnings generation, including through a successful turnaround of the retail banking business, and a CET1 ratio being maintained well above 16%. This could be manifested by further franchise growth in insurance (particularly non-life), private banking, asset management or lower-risk corporate and investment banking activities and an operating profit/RWAs sustainably at 2.5%–3%, at least.

An upgrade of CNP's Insurer Financial Strength rating would not automatically lead to an upgrade of LBP's ratings, as our assessment of the group's consolidated profile would likely remain constrained by our views on capital fungibility and business diversification relative to higher-rated banking peers.

Other Debt and Issuer Ratings

Debt level	Rating
Deposits	A+/F1+
Senior preferred debt	A+/F1+
Senior non-preferred debt	A
Subordinated (Tier 2) debt	BBB+
Additional Tier 1	BBB-

Source Fitch Ratings

LBP's long-term senior preferred debt rating of 'A+' is one notch above the Long-Term IDR, reflecting Fitch's expectation that LBP will continue to maintain large amounts of subordinated and senior non-preferred debt to comfortably meet its total resolution buffer requirement without senior preferred debt. For the same reason, LBP's senior non-preferred debt is rated in line with its Long-Term IDR.

Fitch expects LBP to meet its total minimum requirement for own funds and eligible liabilities (MREL) without using senior preferred debt. LBP has to comply with a total MREL of around 26% from 2024, including the 1% countercyclical buffer in force since 2 January, and we project that its subordinated MREL ratio will remain slightly below 29% at end-2025 (end-2023: 27.6%). To meet this requirement, we expect LBP will continue issuing senior non-preferred debt, and potentially more junior instruments, over the next 12 to 24 months.

Fitch rates LBP's Derivative Counterparty Rating (DCR) and long-term deposits in line with its senior preferred debt because non-guaranteed depositors and derivative counterparties in France benefit from the same level of protection from bank resolution buffers.

The short-term senior preferred debt and deposit ratings are in line with LBP's Short-Term IDR of 'F1+', which is the higher of the two ratings mapping to a long-term debt rating of 'A+'. This reflects Fitch's assessment of LBP's funding and liquidity at 'aa-'.

LBP's subordinated Tier 2 notes are rated 'BBB+', two notches below the bank's Viability Rating (VR), to reflect poor recovery prospects in case of a non-viability event. Fitch does not apply further notches for non-performance risk because the terms of the notes do not include contingent conversion triggers.

The bank's additional Tier 1 (AT1) notes are rated 'BBB-', four notches below its VR. This includes two notches for loss severity and two notches for non-performance risk. Our assessment is based on LBP's large consolidated regulatory capital buffers above coupon-omission triggers, estimated at around 900bp of RWAs, and sufficient distributable reserves supported by the dividends received from CNP, which more than offset the loss-making banking operations.

Significant Changes from Last Review

Strong Insurance Performance Drives 2023 Earnings

LBP reported strong 2023 results amidst a challenging domestic operating environment for French banks, which suffered from margin compression. LBP's performance benefitted from strong growth in CNP's well-performing insurance business, which more than offset its weaker retail banking performance, with housing loan production halved from 2022 levels. Unlike foreign peers, French retail banking activities are yet to benefit from higher interest rates.

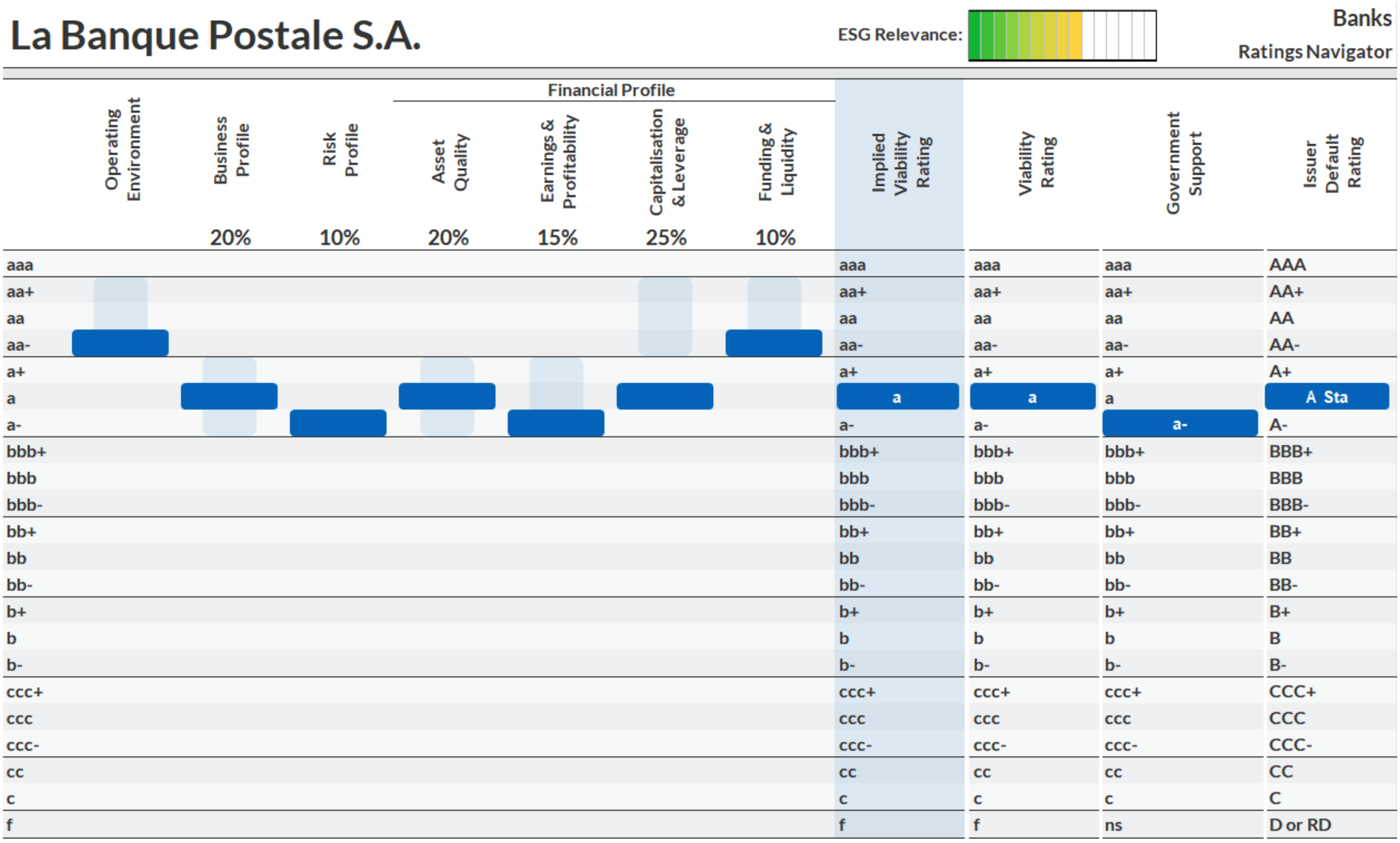
LBP's operating profit/RWAs ratio of 2.2% was higher than in previous years (end-2022: 1.9%; end-2021: 1.8%), and largely in line with our expectations. We forecast that LBP's profitability will slightly improve in 2024–2025, and reach an operating profit/RWAs ratio of around 2.5% in 2025. We expect that improved profitability will primarily result from a gradual recovery in retail banking revenue from 2H24, helped by wider commercial margins, and further organic growth in insurance. Asset management should also perform reasonably well, benefitting from a recent acquisition. However, our forecasts are sensitive to market effects, driven by IFRS17 accounting for CNP's large insurance activities because these can lead to material revenue swings when financial asset valuations change dramatically.

The growth in operating expenses was controlled, at just over 2% (flat excluding one-off costs related to the announced closure of LBP's digital bank). The bank's cost/income ratio decreased to a still very high 68% (end-2022: 77%), and we expect progress in cost efficiency to be more moderate going forward, as IFRS 17 has already led to a massive improvement. Further cost efficiency improvements will likely result from the revenue recovery in LBP's retail banking operations and a cost savings plan launched by the bank (with EUR200 million cost savings planned in 2024, equivalent to 5% of LBP's retail banking operating costs in 2023).

Asset quality remains sound and compares well with French peers, but the impaired loans ratio deteriorated markedly in 2023 to 2% (end-2022: 1.7%), notably due to some large corporate exposures, which also affected domestic peers. LBP's exposure to commercial real estate is limited (40% of CET1 capital, or 16% of the corporate loan portfolio, which makes up only a third of its total loan book) and is virtually exclusively located in France. Loan impairment charges were low at 15bp of gross loans, and we expect them to remain contained at 20bp-25bp in 2024–2025.

LBP's very strong CET1 ratio of 18.1% (end-2022: 14.7%), excluding 2023 net profit, is at the higher-end of European peers, although it was boosted by IFRS17 effects in 2023 (+320bp on 1 January 2023) and by the bank's use of the Danish compromise, which overstates the level of available loss-absorbing capital compared with peers. The bank's good earnings generation in 2023 was partly offset by dividend distribution and the acquisition of a small asset manager (minus 50bp). We estimate that the CET1 ratio including net profit and expected dividend distribution was around 19% at end-2023.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The capitalisation and leverage score of ‘a’ has been assigned below the ‘aa’ implied range for the following adjustment reasons: capital flexibility and ordinary support (negative).

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	7,952	7,258	7,055	5,355	3,862
Net fees and commissions[1]	2,222	2,028	-1,436	-1,243	-778
Other operating income	-2,201	-2,009	2,728	4,007	4,736
Total operating income	7,973	7,277	8,347	8,119	7,820
Operating costs	5,423	4,950	6,406	6,215	5,711
Pre-impairment operating profit	2,549	2,327	1,941	1,904	2,109
Loan and other impairment charges	216	197	216	268	674
Operating profit	2,334	2,130	1,725	1,636	1,435
Other non-operating items (net)	-91	-83	52	1	3,672
Tax	857	782	427	514	419
Net income	1,386	1,265	1,350	1,123	4,688
Other comprehensive income	630	575	-4,345	393	-413
Fitch comprehensive income	2,016	1,840	-2,995	1,516	4,275
Summary balance sheet					
Assets					
Gross loans	139,713	127,522	125,950	117,567	113,287
- of which impaired	2,743	2,504	2,086	1,627	1,611
Loan loss allowances	1,726	1,575	1,460	1,346	1,216
Net loans	137,988	125,947	124,490	116,221	112,071
Interbank	73,442	67,034	66,843	67,508	70,185
Derivatives	6,685	6,102	8,667	3,371	3,103
Other securities and earning assets	527,462	481,437	487,651	520,104	497,409
Total earning assets	745,578	680,520	687,651	707,204	682,768
Cash and due from banks	44,456	40,577	39,355	50,812	43,283
Other assets	18,684	17,054	18,638	14,294	11,125
Total assets	808,718	738,151	745,644	772,310	737,176
Liabilities					
Customer deposits	234,160	213,728	212,499	211,543	205,540
Interbank and other short-term funding	70,970	64,777	67,179	61,751	66,653
Other long-term funding	35,820	32,694	26,352	25,183	24,995
Trading liabilities and derivatives	6,463	5,899	7,142	3,043	3,296
Total funding and derivatives	347,413	317,098	313,172	301,520	300,484
Other liabilities	428,911	391,485	408,319	438,207	404,070
Preference shares and hybrid capital	4,662	4,255	4,277	4,236	2,866
Total equity	27,733	25,313	19,876	28,347	29,756
Total liabilities and equity	808,718	738,151	745,644	772,310	737,176
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

[1] Net fees and commissions turned positive in 2023 due to the implementation of IFRS17 that led to a reclassification of costs linked to insurance distribution contracts.
Source: Fitch Ratings, Fitch Solutions, LBP

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%, annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.2	1.9	1.8	1.7
Net interest income/average earning assets	1.1	1.0	0.8	0.7
Non-interest expense/gross revenue	68.3	77.0	77.5	73.9
Net income/average equity	5.4	5.9	3.8	21.0
Asset quality				
Impaired loans ratio	2.0	1.7	1.4	1.4
Growth in gross loans	1.3	7.1	3.8	5.3
Loan loss allowances/impaired loans	62.9	70.0	82.7	75.5
Loan impairment charges/average gross loans	0.2	0.2	0.2	0.6
Capitalisation				
Common equity Tier 1 ratio	18.1	14.7	19.1	20.4
Tangible common equity/tangible assets	2.7	1.8	3.1	3.4
Basel leverage ratio	7.3	5.6	7.2	6.1
Net impaired loans/common equity Tier 1 capital	5.3	4.6	1.6	2.3
Funding and liquidity				
Gross loans/customer deposits	59.7	59.3	55.6	55.1
Gross loans/customer deposits + covered bonds	56.6	56.6	53.4	52.9
Liquidity coverage ratio	146.0	147.0	186.0	179.0
Customer deposits/total non-equity funding	67.8	68.5	69.9	68.5
Net stable funding ratio	132.0	129.1	142.7	140.0

Source: Fitch Ratings, Fitch Solutions, LBP

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a or a-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	a-
Government ability to support D-SIBs	
Sovereign Rating	AA-/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Positive

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Very High Probability of Support

The Government Support Rating (GSR) of 'a-' reflects a very high probability of state support, although the GSR is not a driver of the bank's IDRs. Provision of support would most likely be through LBP's direct parent La Poste, the French postal service operator, whose public-sector ownership is enshrined in French law.

LBP's GSR is four notches below France's sovereign IDR because support would most likely be provided under the limitations of the EU's Bank Recovery and Resolution Directive and state-aid considerations. This assessment builds on LBP's indirect public-sector ownership, and on the bank's high importance to its parent and to the French state given LBP's public service mission.

Environmental, Social and Governance Considerations

FitchRatings **La Banque Postale S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

La Banque Postale S.A. has 6 ESG potential rating drivers

- La Banque Postale S.A. has exposure to services for underbanked and underserved communities: SME and community development programs; financial literacy programs but this has very low impact on the rating.
- La Banque Postale S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	6	issues	3
not a rating driver	3	issues	2
not a rating driver	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	3	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.

LBP's ESG Relevance Scores are in line with the standard scoring for western European banks except the Human Rights, Community Relations, Access and Affordability sub factor, which we score at '3' for LBP instead of '2' for most banks. This is to reflect LBP's public-sector mission in supporting financially vulnerable clients, which we believe has some influence on its business generation and earnings profile. This is because LBP has a higher share of financially vulnerable, and so less profitable, customers than French peers.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.